Supreme Court, U.S.
FILED
JAN 9 1985
ALEXANDER L. STEVAS,
CLERK

No. 84-830

IN THE

Supreme Court of the United States

OCTOBER TERM, 1984

ETHICON, INC.,

Petitioner,

—v.—

HANDGARDS, INC.,

Respondent.

REPLY BRIEF IN SUPPORT OF PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

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TABLE OF CONTENTS

	PAGE
Table of Authorities	iii
Argument	1
I. Handgards' Brief Emphasizes The Need for This Court's Review of The *Noerr-Pennington* Issue	1
II. The Appropriate Standard for Reviewing Sufficiency of The Evidence Is Part and Parcel of The First Amendment Problem Presented By The Sham Litigation Exception	5
III. The Verdict In This Case Demonstrates the Threat to Petitioning Activity Created By The Ninth Circuit's "Bad Faith" Test	6
IV. The Jurisdictional Conflict Created By the Ninth Circuit's Ruling Here and the CAFC's Decisions Should be Resolved By This Court	8
Conclusion	10

TABLE OF AUTHORITIES

Cases	PAGE
Alexander v. National Farmers Organization, 687 F.2d 1173 (8th Cir. 1982), *cert. denied*, 461 U.S. 937 (1983)	2
Al Bolser's Tire Stores, Inc. v. Bandag, Inc., 223 U.S.P.Q. 982 (Fed. Cir., Nov. 8, 1984)	8
Associated Radio Service Co. v. Page Airways, Inc., 624 F.2d 1342 (5th Cir. 1980), *cert. denied*, 450 U.S. 1030 (1981)	2
Atari, Inc. v. JS&A Group, Inc., 223 U.S.P.Q. 1074 (Fed. Cir., Nov. 8, 1984)	8
The Barbed Wire Patent, 143 U.S. 275 (1892)	7
Bill Johnson's Restaurants, Inc. v. N.L.R.B., 461 U.S. 731, 103 S. Ct. 2161 (1983)	1, 5
Bose Corp. v. Consumers Union, Inc., ____ U.S. ____, 104 S. Ct. 1949 (1984)	5
California Motor Transport Co. v. Trucking Unlimited, 404 U.S. 508 (1972)	4
Cleveland v. Cleveland Electric Illuminating Co., 734 F.2d 1157 (6th Cir.), *cert. denied*, ____ U.S. ____, 105 S.Ct. 253 (1984)	2
E.I. du Pont de Nemours & Co. v. Berkley & Co., 620 F.2d 1247 (8th Cir. 1980)	3, 4, 7
Gregory v. Chicago, 394 U.S. 111 (1969)	3
Hospital Bldg. Co. v. Trustees of Rex Hospital, 691 F.2d 678, (4th Cir. 1982), *cert. denied*, ____ U.S. ____, 104 S.Ct. 231 (1983)	2
Hydro-Tech Corp. v. Sundstrand Corp., 673 F.2d 1171 (10th Cir. 1982)	2

PAGE

Ollman v. Evans, No. 79-2265 (D.C. Cir., Dec. 6, 1984) 6

Stromberg v. California, 283 U.S. 359 (1931) 3

Vendo Co. v. Lektro-Vend Corp., 433 U.S. 623 (1977) 2

Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp., 382 U.S. 172 (1965) 4

Statutes, Rules and Regulations

28 U.S.C. § 1295 8

Other Authorities

D. Chisum, *Patents* (1978) 4

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I. Handgards' Brief Emphasizes the Need for This Court's Review of the *Noerr-Pennington* Issue

Handgards purports to embrace this Court's decision in *Bill Johnson's Restaurants* but offers nothing to support its naked and incorrect assertion that *Bill Johnson's Restaurants* has "clearly delineated" the sham litigation exception (Brief In Opp. at 12). *Bill Johnson's Restaurants* held that any lawsuit that turns "on the credibility of witnesses or on the proper inferences to be drawn from undisputed facts" cannot be deprived of First Amendment protection. 103 S. Ct. 2161, 2171 (1983). That decision, a labor case, did not address and has not settled the conflict and confusion in the antitrust area involving the scope of the sham litigation exception. Handgards does

not and cannot deny that the decisions in the lower courts have repeatedly voiced judicial uncertainty as to the scope of the protection to be given to a single lawsuit purportedly brought in bad faith (Pet. at 15-20).[1]

Handgards denies a significant conflict among the Circuits on this issue, but in so doing it ignores or misconstrues the vast majority of decisions cited in the petition. These decisions have consistently required either a multiplicity of actions designed to bar a competitor's access to adjudicatory bodies, or baseless litigation accompanied by an overall scheme of predatory, fraudulent, or corrupt acts *extrinsic* to the conduct in the litigation itself (*See* Pet. at 8-9; 16-20). At least in the Fourth,[2] Fifth,[3] Sixth,[4] Eighth,[5] and Tenth[6] Circuits, Ethicon's conduct here would not have been actionable.

Handgards' own confusion appears in its vacillation over whether the bad faith test fashioned by the Ninth Circuit for

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1 Moreover, contrary to Handgards' "close reading" of this Court's decision in *Vendo Co. v. Lektro-Vend Corp.*, 433 U.S. 623 (1977), a majority of the Court in that decision viewed the sham exception as requiring a multiplicity of suits. *See id.* at 635 n. 6 (plurality opinion of Rehnquist, J.); *id.* at 644 n. (opinion of Blackmun, J.).

2 *Hospital Building Co.* v. *Trustees of Rex Hospital*, 691 F.2d 678, 687-88 (4th Cir. 1982) (sham exception requires baseless, repetitive actions taken to prevent competitor's access to tribunal; jury instruction labelling "abuse of process" as sham is overbroad).

3 *Associated Radio Service* v. *Page Airways, Inc.* 624 F.2d 1342, 1358 (5th Cir. 1980) ("specific acts, other than those incidental to normal use of the courts," required).

4. *Cleveland* v. *Cleveland Electric Illuminating Co.*, 734 F.2d 1157, 1162 (6th Cir. 1984) (requiring repetitive claims that succeed in barring access to courts or agencies).

5 *See Alexander* v. *National Farmers Organization*, 687 F.2d 1173, 1200 (8th Cir. 1982) ("broad pattern" of actual and threatened litigation against customers of target organization held to be a sham).

6 *Hydro-Tech Corp.* v. *Sundstrand Corp.*, 673 F.2d 1171, 1176-77 (10th Cir. 1982) (filing suit merely without probable cause, "such determination to be made, of course, on a hindsight basis," not within sham exception).

patent enforcement actions, and endorsed by Handgards itself in that Court, is proper. Handgards now appears to recognize that in addition to baselessness, conduct external to the single lawsuit must also be shown (Brief In Opp. at 15).[7] Significantly, Handgards makes no attempt to defend the Ninth Circuit's belated effort to give the appearance of satisfying the external act requirement through labeling a litigant's bad faith as "extrinsic" to the lawsuit itself (App. B. 35a).

Instead, Handgards now seizes upon a letter written by Gerard in response to a query by Ethicon's distributor, Porter. The letter enclosed a copy of the Gerard patent and correctly informed the distributor that it was being prosecuted. Handgards does not and cannot claim that this straightforward and simple letter was in any way inaccurate.

The constitutional protection afforded the right to petition would be illusory indeed if one could lose it by merely referring in a letter to its exercise. For the extrinsic act requirement to be meaningful, it must refer to conduct that is independently predatory and unlawful, and therefore shed light on the overall anticompetitive scheme of the perpetrator. But merely informing one's own distributor as to the existence of the patent and a lawsuit thereon is not at all probative of any scheme to monopolize. *E.I. du Pont de Nemours & Co.* v. *Berkley & Co.*, 620 F.2d 1247, 1272-73 (8th Cir. 1980). This episode thus adds nothing to the basic charge of litigating in bad faith, as even the Ninth Circuit recognized. In *Handgards I*, with full knowledge of the Porter letter, the court squarely found that "no evidence of any overall scheme to monopolize exists *apart* from allegations that directly relate to the bad faith prosecution charges." (App. C at 51a) (emphasis in original).

Handgards also relies on Ethicon's offers to license Handgards as proof of external, unlawful conduct. These

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7 Because the jury was not instructed at all on and could not have found the necessary elements of the *Noerr-Pennington* doctrine, including the extrinsic-act requirement, Handgards' after-the-fact exposition of evidence supposedly satisfying that aspect of the rule would in any event not suffice to uphold the verdict below. *Gregory* v. *Chicago*, 394 U.S. 111 (1969); *Stromberg* v. *California*, 283 U.S. 359 (1931).

license offers, including the ones made on the Orsini patent, were consistently rejected by Handgards because it preferred to set up a *Walker Process* treble damage case based on the Orsini patent (DX 1032, DX 1033), a claim that Handgards abandoned as meritless in 1975. The Orsini product patent was ultimately found to be valid and infringed by Handgards and covers the very market found to have been illegally monopolized.[8]

Thus, each of Handgards' attempts to find external misconduct is not only fruitless, but also illustrates Handgards' discomfort with the legal standard on which this judgment was based.

Finally, Handgards invokes *Walker Process Equipment, Inc.* v. *Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965) in support of the bad faith rule fashioned below. In doing so, it completely ignores the limitation of that decision, made crystal clear in Justice Harlan's concurrence, to lawsuits based on fraudulently-obtained patents. (*See* Pet. at 12). *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508, 512-13 (1972) properly recognized *Walker Process* fraud as the type of collateral, corrupt activity that may render litigation unprotected by the right to petition. But so-called "bad faith" adversary litigation is a very different matter. Patent applications are secret, *ex parte* affairs. The applicant is therefore under an affirmative duty of full and forthright disclosure of all facts material to patentability. *See, e.g.*, D. Chisum, *Patents* §§ 11.03[4], 19.03 (1978). If the patent is procured by the applicant's intentional fraud, not only can it not possibly be valid but the "patentee" has no right to appear in court at all under color of the "patent." *See E.I. duPont de Nemours & Co.* v. *Berkley & Co., supra*, 620 F.2d at 1274. By contrast, a properly issued patent, such as Gerard's, is itself a grant of a right to sue. Indeed it is nothing more than that, for a patent may only be tested and enforced in court. Such adversary proceedings are necessary to the proper functioning of the

8 Although in 1968 Ethicon had given Handgards a covenant not to sue on Orsini (Brief In Opp. at 23 n.10), that covenant was *vacated* in the 1976 antitrust trial, resulting in the judgment of validity and infringement.

patent system and, in such enforcement actions, it is customary and expected for each side to present the conflicting evidence in the light most favorable to it. In most of the other Circuits, a subsequent antitrust jury would not have been allowed to infer "bad faith," and resultant antitrust liability, from that evidence.

II. The Appropriate Standard For Reviewing Sufficiency Of The Evidence Is Part And Parcel Of The First Amendment Problem Presented By The Sham Litigation Exception

Handgards characterizes the need for the trial and appellate courts to make an independent evaluation of the evidence relied upon to overcome the First Amendment right of petition as an "alternative argument." (Brief In Opp. at 18). It is not. A substantive constitutional standard can easily be vitiated without proper procedural safeguards.

This case keenly demonstrates this danger. The abdication by both the trial and appeals court of their duty to make this independent determination gives a jury unfettered discretion to determine whether a party's conduct is unprotected by the First Amendment. It effectually overrides the mandate of *Bill Johnson's Restaurants* that exercise of the right to petition cannot be penalized where the outcome of the suit depended "on the credibility of witnesses or on the proper inferences to be drawn from undisputed facts." 103 S. Ct. at 2171. That was precisely the case here and that is why the case should never have gone to the jury.

Ever since the Ninth Circuit in *Handgards I* fashioned this free-floating bad faith standard, Ethicon has consistently urged that the trial and appeals courts were required to make an independent, threshold determination whether the evidence was sufficient to deprive Ethicon of its constitutional right of petition.[9] Specifically, Ethicon urged on its motion for sum-

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9 This Court's decision in *Bose Corp. v. Consumers Union*, ____ U.S. ____, 104 S.Ct. 1949 (1984) was not decided until months after this case had been fully briefed and argued in the Ninth Circuit. Thus, it was not discussed below.

mary judgment in 1980 (Ethicon Br. pp. 78-84), on its motion for judgment n.o.v. in 1982 (Ethicon Br. pp. 10-11, 15-19, 29-37) and on its appeal briefs to the Ninth Circuit in 1983 (Appellant's Br. pp. 10-11, 24-26; Reply Br. pp. 1-3) that a threshold judicial determination of the evidence should be made and that such a determination precluded submission of the case to the jury. The Ninth Circuit clearly understood that Ethicon was urging such a standard as part of the *Noerr-Pennington* immunity argument. It explicitly rejected the duty to make such a "threshold legal determination" and the duty to make any independent review of the record (App. C, 9a-10a, 32a). Those unequivocal excerpts from the Ninth Circuit's opinion are quoted at page 23 of our petition. Handgards' refusal to discuss them exposes the frivolity of its claim of waiver.

III. The Verdict In This Case Demonstrates the Threat to Petitioning Activity Created By The Ninth Circuit's "Bad Faith" Test

Handgards carefully avoids the thrust of Ethicon's petition. It incorrectly characterizes it as solely "an Attack on the Jury Verdict" and then repeatedly recites the instruction that the jury had to find by "clear and convincing evidence" that Ethicon "knew" that its patent was invalid. But that is the crux of what is wrong with the Ninth Circuit's unique "sham" doctrine. This is a case that, under a proper application of the sham exception, should never have gone to the jury. As Judge Robert Bork recognized in another recent First Amendment case, if the defendant's conduct is constitutionally protected as a matter of law, submitting the case to the jury on a "clear and convincing" standard of proof "is next to no protection." *Ollman* v. *Evans*, No. 79-2265, slip op. at 32 n.9 (D.C. Cir., Dec. 6, 1984) *(en banc)* (Bork, J., concurring).

Ethicon did not "know" of undisputed facts that rendered the patent invalid, and the jury was never required to so find. All Ethicon knew was that the facts relating to validity were hotly disputed and hinged on testimony of adverse witnesses.

Thus, Handgards concedes that the one issue litigated in the patent suit—that of prior public use—was a "decision based on credibility of witnesses" (Brief in Opp. at 2 n.2). Ethicon resolved to try this credibility issue in court, as was undoubtedly its right. *See The Barbed Wire Patent*, 143 U.S. 275, 284-85 (1892); *E.I. duPont de Nemours & Co. v. Berkley & Co., supra*, 620 F.2d at 1269.

Handgards is reduced to arguing that Ethicon lost its First Amendment immunity in not "recognizing *the truth*—that the Gerard patent was invalid" on other grounds which were not even litigated in the patent trial (Brief In Opp. at 5). Handgards concedes by its silence, however, that these two unlitigated defenses, priority of invention and the on-sale bar, turn on the application of patent law principles to facts known to its own attorneys during the patent case.

The "fabricated" interrogatory answers (which dealt exclusively with these unlitigated issues and which, Handgards conceded, did not mislead it) were legal contentions on ultimate issues based on a pre-trial view of the facts in the light most favorable to Ethicon. Handgards' evidence of "falsification" is nothing more than a restatement of the issue in the light most favorable to it.[10]

None of the foregoing comes close to being a "sham". No litigant should be required to prove to the satisfaction of a

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10 The undisputed facts on the issue of the date of reduction to practice were that Gerard made a glove using a special printer's paper *backing* in September, 1956, and used ordinary paper as a *carrier* the following May. Ethicon construed the patent as requiring a paper backing, not a paper carrier for the plastic gloves. Thus, Ethicon's counsel contended that the September event satisfied the legal reduction to practice requirement, and Handgards contended in this antitrust suit that only the May event did so. Had the issue been tried, Ethicon's contention may have been declared "right" or "wrong", but a jury had no business adjudicating it as "true" or "false".

With respect to the other unlitigated affirmative defense, that of the on-sale bar, Handgards does not dispute that this defense would have turned on the application of patent law to *undisputed* facts known to it at the time of the patent trial. Neither Handgards nor the Ninth Circuit has ever cited any authority foreclosing the position Ethicon took on this issue.

subsequent antitrust jury that contentions made in the earlier case were incontestably correct, as Handgards seems to contemplate (Brief in Opp. at 5).

Handgards remonstrates for judicial finality (Brief In Opp. at 25). Yet the Ninth Circuit's determination that the merits of any lawsuit between competitors can be relitigated with an object of assessing treble damages for conduct completely within the bounds of the lawsuit is certain to defeat the interest of finality. Here there was a single suit, unsullied by subornation of perjury or any other abuse of process. It was brought on a non-fraudulently procured patent and unaccompanied by any anticompetitive conduct external to the lawsuit. It presents in the purest form the question whether such a suit may rise to the level of a "sham" under the *Noerr* doctrine and thus, without more, constitute grounds for treble damage antitrust liability.

IV. The Jurisdictional Conflict Created By The Ninth Circuit's Ruling Here And The CAFC's Decisions Should Be Resolved By This Court

Handgards seems to suggest, without explicitly arguing, that Ethicon misled the Ninth Circuit on the jurisdictional issue (Brief In Opp. at 24-25). Ethicon, however, raised the jurisdictional issue in the pre-appeal filing in the Ninth Circuit and in its briefs precisely because the question of subject matter jurisdiction was open to serious question and was one which could not be waived. At the time of the argument and decision by the Ninth Circuit in this case there were no CAFC cases dealing with the critical jurisdictional point: whether the CAFC has exclusive jurisdiction over an appeal involving a non-patent issue in a case "arising in part" under the patent laws. 28 U.S.C. § 1295(a)(1). The Ninth Circuit in this case held that the CAFC does not have jurisdiction over such an appeal. The CAFC now in *Atari, Inc. v. JS&A Group, Inc.*, 223 U.S.P.Q. 1074 (Fed. Cir., Nov. 8, 1984) suggests that it does.[11] The CAFC, in an *en banc* opinion, stated (223 U.S.P.Q. at 1079):

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11 *Al Bolser's Tire Stores, Inc. v. Bandag, Inc.*, 223 U.S.P.Q. 982 (Fed. Cir., Nov. 8, 1984) holds to the same effect as *Atari*.

> This court's jurisdiction, under the statute and as recognized in the legislative history, *infra* note 7, is *defined* by the basis of the district court jurisdiction. Because the district court's jurisdiction of Atari's entire case was and still is based in part on its patent claim under § 1338(a), and because § 1295(a)(1) vests this court with exclusive appellate jurisdiction in such cases, we cannot, as Atari would have us do, disregard the literal language of our jurisdictional statute. [emphasis in original]

It concluded (223 U.S.P.Q. at 1082):

> . . . appellate jurisdiction [exists] over all final, i.e., appealable, decisions of district courts in cases like the present, where the district court's jurisdiction was and is based in part on a continuing non-frivolous patent claim under § 1338, whether the appealed decision relates to an existing patent claim or to a non-patent claim.

Handgards argues that the case "did not arise" in part under the patent laws because the pre-trial orders entered in 1975 reflect only claims under § 4 of the Clayton Act. It cannot dispute the fact, pointed out not only in our petition (p. 27), but also in the Ninth Circuit's Opinion (App. A, at 7a n.7) that the complaint herein was amended in 1976 prior to the first trial to seek a declaration of invalidity of the Orsini patent, and that a judgment of validity and infringement of Orsini by Handgards was duly entered on that claim.

Thus, if the CAFC is correct in its construction of its own jurisdictional grant, the Ninth Circuit lacked jurisdiction of the subject matter here. *Atari* and *Handgards* are in direct conflict and only this Court can resolve this continuing jurisdictional problem.

CONCLUSION

For the reasons stated, a writ of certiorari to the Ninth Circuit should issue.

Respectfully submitted,

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